Testimony of Randy Mooney

House Agriculture Committee Hearing

August 28, 2006

Springfield, Missouri

I'm Randy Mooney, a dairy farmer from Rogersville, Missouri. My wife Jan and I operate a dairy farm milking 200 Holstein cows and maintain a cow-calf beef operation. Our dairy grazes the cows nearly year round and we produce over 2.5 million pounds of milk over a 12-month period. We have been in the dairy business for over 20 years. I am first vice chairman of the corporate board of directors for Dairy Farmers of America, Inc. (DFA), a national milk-marketing cooperative based in Kansas City, Missouri. I also serve as chairman of DFA's Southeast Area Council.

In addition to my leadership role in DFA, I serve as a board member of the Midwest Dairy Association, chair Dairy Promotion, Inc., and serve on the boards of the Missouri State Milk Board, the Southern Marketing Agency, the Dairy Cooperative Marketing Agency, and the National Milk Producers Federation.

I appreciate the opportunity to testify at this hearing today.

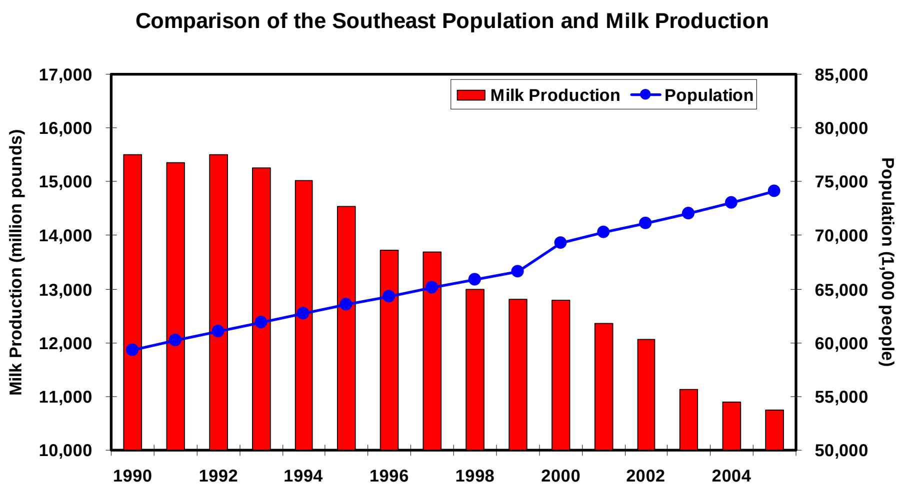
I have a written testimony document that is more detailed on all of the points that I will touch on today. I'd like to submit that document for the committee's reference. I will spend most of my time discussing some Federal Order issues that my fellow Missouri dairy farm families are most concerned about today.

While organizations that I serve have not officially established positions for all of the 2007 Farm Bill issues, I would like to share my thoughts on some of the major themes that will define the dairy sections of the bill.

1) **First of all, we support continuation of the Federal Milk Marketing Order program. Marketing Orders are important to us as they under gird all of our marketing and pricing**

efforts all over the country. Orders assure dairy farmers a minimum price, assure that all competing milk buyers pay the same minimum price, assure that all dairy farmers share equitably in the returns of the marketplace and assure that the terms of trade are uniform throughout the Order's marketing area. These objectives remain very important ones in the dairy marketplace. Moreover, despite the claims that they are outdated and not relevant, the primary reasons for the institution of milk orders still exist: There are many more buyers than sellers and the average sized milk buyer is much larger than all but the very largest dairy farms. Milk production is still very seasonal. Milk demand has a weekly and seasonal purchase pattern that requires substantial costs to balance producer supplies with buyer demand. Individual dairymen, and even large groups of dairy farmers, continue to need the stability of Orders to deal with these marketing challenges.

Southeastern dairy farmers are in an expanding market – population in the Southeast is growing each year. However, the Southeast is a high cost area to produce milk primarily because the climate is not favorable for raising a dairy herd. With those high costs comes a need for adequate returns for our products to break even or return profits to dairying. From the numbers of farms leaving dairying we can safely assume that many dairy farm businesses are simply not making it.



Milk markets are priced based on national supply-demand situations, which are largely influenced by areas of the country that have a surplus of milk. The national situation does not necessarily reflect the needs of the Class I market – especially so in the Southeast; therefore, we feel the need for a separate pricing system that allows all Class I milk to be priced differently than current. Because of this situation we are suggesting a policy that would establish a floor for the Class I mover at no lower than $13.00 per hundredweight. This solution would be market based and cause no additional government cost.

We are becoming very frustrated in our attempts to get the Order system to recognize the increasing cost of transporting milk to market, the very real impact that fuel costs play in the transportation equation, and the manner in which these costs are not equitably shared among all producers in the federal order system. The transportation cost issues have become increasingly important because of: (1) transportation cost increases, especially for diesel fuel, and (2) "flattening" of the Class I price surface in the process of implementation of "Order Reform" by Congressional directive in January 2000. Furthermore, the large increase in production nationally seems to cloud the view of what is needed in the Southeast. The national price surface no longer recognizes the cost to transport milk adequately. This is a problem when we attempt to source milk for Southeastern consumers from out of the market or to transport it from my area to other parts of the Southeast.

The dairy farmers who supply the Southeastern markets work together thru the Southern Marketing Agency (SMA) to most efficiently deliver milk to the market. We have asked USDA to look into recovering transportation costs at an Order Hearing. Specifically we asked that the existing transportation credit system be adequately funded. This system has been in place since the late 1990's and helps to share the cost of bringing in milk supplies from outside of the Southeast into the market. In June of 2005 the Southeast had to source 58% of its sales from sources outside the Southeast. Outside purchases in August 2005 were double those needed in August 2000. The over-the-road hauling cost in 1997 when the credit was implemented were $1.75 per mile and

last month they were $2.63 on supplemental purchases form the Southwest and $2.96 from the Mid-Atlantic and Northeast states. I am sure members of Congress are familiar with diesel fuel cost changes so I don't need to provide any information about them. In 1997 this particular program offset 95% or more of the transport cost. And, as documented in the Hearing record, by 2005 the reimbursement rate covered less than 40%. The volatility of fuel costs changes is nearly impossible for dairy farmers to pass thru in a timely manner. A gallon of milk must flow thru a processing plant, many times a distributor or wholesaler and then thru a retailer, school or institutional business before it eventually gets to a consumer. So it takes a lot of negotiating effort to pass thru costs – an a lot more time than it takes for gas prices to rise at the pump.

Our proposals updated the 1997 program to levels that reflect current costs and included a fuel cost adjustor that recognized changes in diesel prices in a responsive manner. We also asked USDA to institute an additional transportation credit system that would help move milk produced inside the southeast to customers in the southeast. This new program is very much like the existing program and would be run by the Order system to insure fairness and accuracy. It would require all farms to pay the cost of getting milk to the closest plant to them and then have the market share in the cost of any additional miles. Even though the Southeast is a deficit market there are several pockets of heavy milk production. I live in one of those. But not all the milk produced in the southern Missouri can be sold there – there are not enough local bottling plants or consumers. Milk from my area regularly goes into other parts of the Southeast every day supplying markets. Every farm in the Order, thru the blend price, shares the revenues from these sales, but not all share in the cost to get it there! Believe me, this is an important issue to southern Missouri dairy farmers and to all the rest of the Southeast.

I'd also point out that our Hearing proposals were supported by all of the major cooperatives in the Southeast who represent over 80% of the production and all of our customers. I have attached a summary of the key points that we presented to the Secretary of Agriculture in the Hearing for your review. (See attachment)

But, we seem unable to get the USDA staff to realize the dilemma we face. They seem to understand the problems that energy costs play in manufacturing dairy products and for example have asked for proposals to address energy cost changes in make allowances. But when we try to get the same rationale to apply to the transport costs we face, we seem to be unable to get them to respond.

It is not for a lack for trying that we can't seem to communicate with USDA. We have made several proposals to deal with these issues in various orders with the following not-yet-successful results to date:

- **The Central Order (Order 32) - transportation credit proposals rejected in a recommended decision; final decision is pending;**
- **The Mideast Order (Order 33) - transportation credit proposals rejected in a recommended decision; final decision is pending;**
- **The Appalachian Order (Order 5) - Hearing held in January, no decision to date;**
- **The Southeast Order (Order 7) - Hearing held in January, no decision to date;**
- **The Northeast Order (Order 1) - No action has been taken upon a formal request for a hearing submitted February 3, 2006;**

If USDA fails to help dairy farmers in this dilemma we may need legislation to address the issue.

Also, while we too are frustrated with the slow pace of change thru Federal Order hearings, we are hopeful that reforms underway initiated by USDA will speed up the hearing process and make it easier to get a Decision.

2) DFA members are participating with all the other members of the National Milk Producers Federation's Dairy Producer Conclaves to develop a consensus position on Farm Bill issues. We will keep you and your staffs informed of our efforts and seek your counsel on issues as we discuss them.

3) Because we do not think there will be radical shifts in policy direction as a result of the 2007 Farm Bill we support the view that an extension will work well for most of the nations dairy farm families.

4) We feel the next Farm Bill should maintain some form of an economic safety net for dairy farmers. Because dairy products are such an excellent source of nutrition for our nation and due to the high fixed cost of becoming a dairy farmer and the fact that milk production assets have limited use in any other agriculture enterprises, past Congresses have maintained safety net provisions for the dairy industry. We hope this Congress will continue these policies.

The most important safety net provision we have is the dairy price support program. We favor continued operation of the dairy price support program at a targeted $9.90 U.S. average manufactured milk price. We would oppose granting the Secretary of Agriculture any discretion, which would reorient its intended purpose away from supporting income to farmers just to result in minimizing government costs – and we may need Congress to instruct the Secretary of Agriculture of this fact in some official manner. Under President Bush's proposed Ag budget the Secretary of Agriculture would be allowed to adjust buying prices for products made from milk (cheese, butter, and nonfat dry milk) so as to reduce the cost to the CCC for products purchased. This could allow for a reduction in targeted support price from that $9.90 as specified in present legislation.

Additionally, I would request that the Commodity Credit Corporation (CCC) take action and adjust the support program purchase price levels for cheese, butter and nonfat dry milk to reflect the significant additional costs manufacturers face when selling products to the CCC. The current CCC purchase prices for dairy products do not reflect any costs beyond those incurred for commercial sales. As a result, market prices for individual products have, from time to time, fallen below support levels, allowing the price of milk used to produce them to fall below the statutory support level for milk of

$9.90 per hundredweight at average test. NMPF has provided information to CCC but thus far CCC has been unwilling to take action. The result is that manufacturers will sell to buyers other than CCC at prices below the support level in order to gain a higher value than the support purchase price would return after deducting costs of doing business with CCC and the support price targets are not maintained.

Up until the last several days, CCC has purchased some NFDM – doing what safety nets are supposed to do. The last time milk prices fell to safety net levels was in 2000 when the average Class III price for the year was $9.74 (below the safety net price of $9.80 for milk of 3.5% butterfat test). The 10-year average Class III price is $12.62. Because the price support program is in place and working we hope to avoid a price crash like in 2002 – but if it wasn't around and prices did fall to that level the Mooney farm would face a loss in income of $74,365 on an the most recent years production. That would be hard for our business to withstand. We are very interested in stable policies that help to keep reasonable prices and a safety net that maintains some level of viability for a dairy farm family.

The second safety net provision is the Milk Income Loss Compensation (MILC) program, which we support as long as there are no caps limiting access to the benefits. My farm is affected by the payment limitations, restricting my ability to fully take advantage of this program. Like the price support program, I view the MILC program as a valuable safety net for producers pay prices. It puts cash in the hands of farmers at the very point it is needed most – the lowest point of the price cycle.

In general the guidelines for a safety net program should be that it:

- **not discriminate between farmers of differing sizes;**
- **not discriminate between farmers in different regions of the country;**
- **not be high enough to encourage additional milk production.**

The government's safety net policy should only operate at a point where a collapse of producer prices could force too many producers out of business and our nations milk-producing infrastructure would be damaged.

5) A majority, but unfortunately not all of the nations dairy farmers, have funded and are operating a self-help program – Cooperatives Working Together (CWT). Dairy farmers voluntarily pay 10 cents per hundredweight on all milk produced in order to structure the size of the nations dairy-cow herd and more closely tailor milk supply to demand. Additionally, the program works to assist exports of dairy products in an attempt to market and promote domestically produced dairy products to the world.

However, the CWT program is not intended to replace federal farm programs and can never do so because there will always be those who choose to take advantage of the programs benefits but never pay their share. Even after three years of successful implementation there are still over 25% of the country's dairy farms that choose not to share in the cost – even though the receive the same benefit as all other dairy farmers. In spite of our success we still need Congress's help in providing policy support to our industry.

6) Dairy Farmers also see policies outside of the Farm Bill impacting their future such as:

Environmental Policies

The implementation of conservation practices on our farm is extremely important to our operation. Increasing the funding for the Environmental Quality Incentives Program (EQIP) in the 2002 Farm Bill was very significant.

I urge you to join the more than 170 House members cosponsoring HR 4341 as part of a bipartisan effort to clarify that animal manure is not a hazardous waste under the Superfund law or its counterpart, the Community Right-to-Know Act. Congress should clarify that it never intended to jeopardize American agriculture

by imposing strict, joint, several, and retroactive CERCLA liability on farmers for their traditional farming practices, including the use of manure as a beneficial fertilizer. I would ask you to urge your colleagues to support this important legislation.

My family has always taken our responsibility to protect the environment very seriously. Dairy farmers and other agricultural producers for years have been regulated and required to have permits under the Clean Water Act, Clean Air Act and numerous state laws and regulations – but never under the Superfund Law. It is essential that Congress protect farmers and businesses that depend on agriculture from this potential threat to their livelihoods.

Workable Immigration Laws

I support the AGJobs Provisions contained in the Senate version of the Immigration Reform and I ask your support for passage of legislation that contains such language.

Estate Tax issues

We favor the elimination of estate taxes. If this is not possible, we would be in favor of any compromise that reduces the estate taxes.

7) Another reason we support extending the current Farm Bill is so that we can have a more clear view of the Doha Round of the WTO trade talks. We can see no reason to change our programs until we know what the world trade rules will be and more importantly perhaps who will play by them.

- **We support multilateral trade talks that level the playing field of dairy export subsidies, tariff protections, and domestic support programs.**

- **We can't support a final agreement unless it represents a net increase in our ability to compete against our more heavily subsidized and protected competitors in the EU, Canada and Japan, as well as more balanced trading opportunities with key developing countries.**
- **We support the continuation of the dairy price support program with or without a successful Doha Round. We strongly disagree with those who claim that the price support program must be phased out or eliminated upon completion of the Doha Round.**
- **DFA's dairy farmer Board endorsed a renewal or an extension of the President's Trade Promotion Authority to advance the U.S. dairy industry's trade interests.**
- **We support additional legislation to make the import assessment for dairy promotion (15 cent check-off) WTO-compliant by including dairy producers in Alaska, Hawaii, District of Columbia and Puerto Rico. Their inclusion will allow the collection of the promotion assessment on imported dairy products as authorized in the 2002 Farm Bill. Such legislative action is obviously long overdue.**

8) **We support the Dairy Export Incentive Program (DEIP) and the requirement that the Secretary of Agriculture be directed to see that the allowable amounts of cheese, butter and nonfat dry milk be afforded export assistance equal to what we are allowed under the current WTO agreement. Currently, no government export assistance is being offered, even though, by law, the Secretary is directed to do so, and by agreement we are allowed to do so under the WTO agreement.**

In closing, Chairman Goodlatte, I want to thank the House Committee on Agriculture for having this series of field hearings. We know we can't explain all of our concerns here in detail but want to make you aware of them so that when we do provide you with additional details you will better understand our concerns. I will be happy to answer any questions, or provide any additional information that you might want.